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The Business Case for Interlocal Cooperation

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A White Paper from the Michigan Government Finance Officers Association

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I. What's happening in our region…

To understand why interlocal cooperation among governments should be expanded upon, one needs to first take stock in what's happening in our region today…

No end in sight for our weak regional economy

Michigan is among the worst performers in the nation with regards to unemployment, population growth, and economic momentum

- The State's population growth rate is less than one-third of the national average and its unemployment rate is the second highest in the nation, with job loss declines for five consecutive years.
- The *government* sector saw the lion's share of Michigan's recent job losses.
- Interest rates are expected to continue rising, making capital and durable good purchases more expensive. This will be yet another problem for the auto industry – and our region – to overcome.
- Ford's and GM's continued downsizing and the bankruptcy of several major auto suppliers creates *downstream* job losses at retailers, restaurants, and other service sector businesses, further weakening our regional economy.
- Annual housing starts have declined and foreclosures are increasing.

Federal and State budget challenges continue

Local, state, and federal government entities are already interdependent, due to revenue sharing and cost shifting from higher levels to lower levels of government, as well as the issuance and receipt of grants. What affects one affects the others. Thus:

- Federal deficits and resulting spending cuts are decreasing grants and other revenues to State and Local governments.
- Federal and state spending restrictions in Medicaid, public health program funding, court equity monies, and so on, are further reducing local revenues.

Local governments in the region are struggling with serious budget issues

Regardless of how well-managed or how large the tax base, some communities are experiencing difficulty providing even *basic* governmental services. Many cities, villages, and townships (CVTs) are struggling in the wake of reduced state revenue sharing, flat or declining property tax revenues resulting from Proposal A and Headlee, stable or declining interest income from investments, and fewer grant awards. In tandem with revenue *decreases*, operating costs have continued to *rise*, e.g., actuarially required and constitutionally guaranteed contributions to retirement plans, health care, fuel, salaries and benefits, etc.

> **Fiscal Stress**
>
> An excellent article on the combined affects of the Headlee Amendment and Proposal A can be found at http://www.semcog.org/cgi-bin/products/publications.cfm?pubs_sort=subject_title, entitled, "*Fiscal Capacity of Southeast Michigan Communities: Taxable Value and its Implications*."
>
> Also, an excellent discussion piece on this subject can be found at http://www.mml.org/legislative/finance.htm entitled, "*System Failure: Michigan's Broken Municipal Finance Model*."

A significant percentage of public sector employees are approaching retirement

The "brain drain" anticipated as the Baby-Boomers retire will be pronounced and the affect dramatic.

Redundancy

Traditionally, when communities had to operate more or less independently due to geographic and technological isolation, direct and sole service provision was expected. In just Michigan alone, *hundreds* of local units of government continue to operate largely independently from one another.

Disturbing, isn't it? None of Michigan's local units of government should feel secure. True, it is primarily the older, built-out communities that are facing fiscal difficulties *today*, but if the above trends continue, even the most affluent communities will be affected. Local governments everywhere *must* protect and serve their communities in ever more efficient and effective ways.

II. Defining Interlocal Cooperation

So, what can we do *now* to forestall the "doom & gloom" of tomorrow? Many of Michigan's cities, villages, and townships (CVTs) and counties are pursuing collaborative initiatives, alternately called interlocal (intergovernmental) cooperation or joint public services, which this paper shall refer to as ILC/JPS.

Why Interlocal Cooperation?

I. Service Provision

- Increases manpower to improve service levels
- Improves employee performance and morale
- Enhances career opportunities for staff
- More efficiently uses personnel and their talents
- Decreases response times
- Improves quantity and quality of services
- Reduces duplication of services
- Broadens resource accessibility / utilization

II. Finance

- Spreads financing responsibility and risk
- Broadens equipment replacement cost sharing and achieves volume purchasing discounts
- Capital acquisition/improvements and certain other resources becomes more efficiently and effectively utilized due to economies of size, scale, and scope

III. Community Relations

- Meets citizen expectations that communities should work together to leverage tax dollars
- Improves equity of access to services
- Expands the sense of community
- Reduces problems of jurisdictional boundaries
- Fosters an environment for future joint ventures
- Attracts businesses and furthers economic development

The Spectrum of ILC/JPS

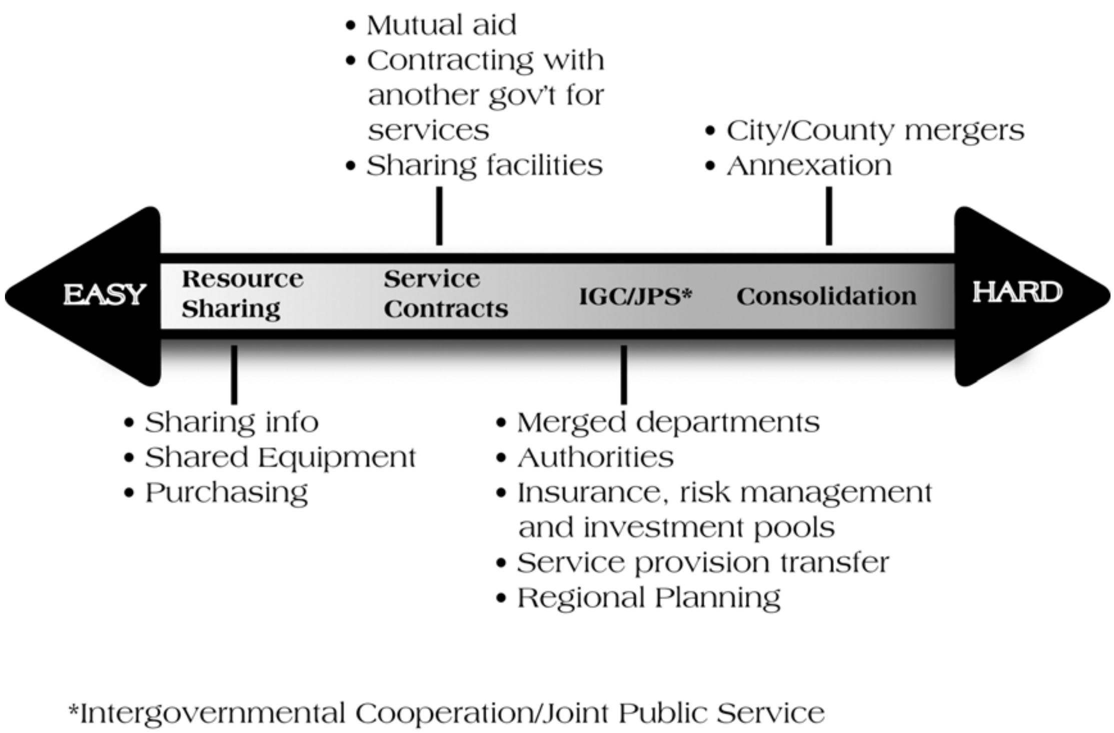
Collaboration is really nothing new. Interlocal service agreements, special districts, authorities, cooperatives, etc., have been with us for a long, long time. Thus, many communities have extensive collaborative arrangements in place *already*, so exploring *additional* opportunities should not be perceived as something unorthodox or threatening. Perhaps what *is* new is the *willingness* of today's CVTs and counties to explore new and creative ways of addressing their financial and service level issues (and opportunities).

ILC/JPS initiatives can range from the simple (e.g., sharing equipment) to the complex (e.g., consolidation of departments between CVTs) and can occur at four, interlacing levels:

- County to County
- County to CVT
- CVT to CVT
- Public-private partnerships, e.g., County/CVT to Private Entity(ies)

The diagram below illustrates the *spectrum* of ILC/JPS practices. Complexity and risks for failure grow as you move from left to right along the continuum…as do the benefits!

The Spectrum of ILC/JPS



Note that while the diagram places ILC/JPS *along* the spectrum, the term often refers to the *entire range* of collaboration. It encompass a great many practices *already* in broad use, as well as newer *innovative* ones, that enable participants to construct a more efficient service delivery structure and better serve citizens.

***Scope*[1]**

There are few limits on the service areas to which ILC/JPS can be applied:

- Administrative (Financial, Procurement, Human Resources)
- Animal Control
- Arts and Culture
- Assessing
- Economic Development
- Education
- Environment
- Fire

[1] - An excellent discussion of ILC/JPS opportunities can be found in the winter, 2006, edition of *SEMscope*.

- Hospitals/Health Departments/Medical Care Facilities
- Housing
- Land Use
- Library Services
- Neighborhood Revitalization
- Parks and Recreation
- Public Facilities
- Public Safety
- Public Works
- Purchasing
- Senior Services
- Technology
- Transportation
- Workforce Development

III. Why Collaborate: The Business Case and Case Studies

Let’s take a look at the factors contributing to the business case for ILC/JPS.

Economies of Scale, Size, and Scope

Economies of Scale

Scale economies are realized when a proportional change in inputs (e.g., product purchases) results in a *greater* than proportional change in outputs (e.g., pooled product purchases provide volume discounts to all communities involved). Economies of scale can result when:

- Greater specialization and division of labor is achievable (e.g., staff with the proper level of education, skills, and experience can function more efficiently and effectively within specialized areas)
- Volume discounts for products and services are achievable
- There are large, up-front fixed costs (or significant replacement costs) that can be shared.

Thus, many services produced and provided by government, especially those that are capital intensive, may benefit from economies of scale that can be achieved through ILC/JPS.

Economies of Size

Size economies are realized when an increase in outputs (e.g., volume of water treated by an under utilized plant) leads to a *decrease* in average total costs of production. Excess capacity (underutilization of an asset/resource) is often the case in communities with modest demand and facilities designed to handle greater capacity (e.g., a community with a decreasing population base). Thus, broadening the user base, increasing transactions, and/or enlarging the geography of service delivery allows *fixed* costs to be spread out such that the *cost per* user, transaction, and entity decreases.

Economies of Scope

Scope economies are realized when the range of services a community produces or provides is expanded and *average* total costs are reduced. Assets, including facilities, are purchased or built for anticipated *local* transaction / user volume. Likewise, a certain level of administrative overhead exists by necessity. Thus, broadening services through ILC/JPS leverages administrative overhead (i.e., spreads costs over a larger base) and allows assets to be more fully utilized (e.g., a shared office building).

Uniformity of Services

Typical of jurisdictions covering broad geographic areas, the provision of service may not be uniform, e.g., timeliness of delivery or access to the service may be impacted by distance from the source. Often this is due to the inability of the jurisdiction to afford more optimal coverage, technically more sophisticated equipment, or more extensively trained personnel. Interlocal cooperation is particularly well-suited for optimizing what would otherwise be underutilized resources, e.g., sharing of a fire station, a K-9 unit, a HazMat team, etc. Thus, the increased cost of additional and/or state-of-the-art equipment and higher paid staff can be economically justified *if* the services are provided to, and shared over, a larger area. This, then, can lead to more uniform service delivery.

Success Characteristics

Generally, if an ILC/JPS initiative has the following characteristics, then it will be more likely to succeed:

- Fiscal stress of local units
- Similarities in income and demographics among participating communities
- Substantial population change (growth or decline)
- Council-Manager form of government
- A well-established mechanism to resolve differences and the willingness to compromise
- Resource commitments by *all* participants
- Consistent, on-going, open communications among all participants
- All potential major barriers to the ILC/JPS initiative are addressed early on, e.g., stakeholder concerns, finance and cost sharing arrangements, salaries/benefits of staff, logos, HR and other policies.
- Adherence to all legal and other requirements
- Prior successes
- Strong leadership
- Political and community support

The Centers for Regional Excellence compiled *A Brief Primer on Regional Collaboration* (http://www.michigan.gov/cre/0,1607,7-115--125792--,00.html) which lists several suggestions for pursuing ILC/JPS endeavors.

Operational Efficiency and Long-Term Effectiveness

So, ILC/JPS initiatives can both enhance the uniformity of service delivery *and* the utilization of assets. This equates to both intangible (quality) and tangible (cost) improvements. The most significant underlying factor contributing to these efficiency and effectiveness gains is the elimination of redundancy of operations and assets, which exists less *within* a given community than it does *across* multiple bordering communities.

Further, taxpayers “live” regionally – constituents travel to different communities regularly for work, shopping, and leisure activities; businesses typically service customers across a region, not just in one community – so educating them on the advantages to ILC/JPS should be a primary goal of CVTs who are thinking and operating regionally.

Significance to the Respective Budgets of the Participants

Assuming that economies, expertise, uniformity, and/or resource pooling opportunities exist, if the programs/service areas being considered for ILC/JPS initiatives don’t have the potential for making a *major positive* impact on the respective budgets of the participants, there may be little political or financial incentive to proceed. Thus, Public Safety initiatives have received a good deal of publicity of late, as Police and Fire Department budgets account for roughly half of municipal expenditures.

Regional Economic Development

Some ILC/JPS initiatives may see cost savings, either immediately or at some point down the road. Others may never see appreciable cost savings, but achieve *intangible* benefits nonetheless, e.g., enhanced service levels. Regardless, it should always be remembered that interlocal cooperation is a *regional* endeavor. That is, its real purpose is to benefit a *region* in *some* way. One of the promises of interlocal cooperation is to break down barriers to doing business – whether real or perceived – to encourage companies to set up shop or expand within the region. Economic development is fostered by making licensing, building codes, tax rates, etc., easier to understand and more uniform within and between communities. Thinking regionally tends to breakdown provincial notions of economic development that new businesses have to locate within one’s city limits. Rather, an employer benefits a region by bringing in new families, fostering housing construction, and attracting other support businesses (e.g., suppliers, restaurants, landscapers, retailers), many – if not most – of whom will locate in *surrounding* communities.

Intangible Benefits

In 2002, an ICMA survey found almost twice as many local governments had studied the feasibility of ILC/JPS as had in 1992 (58% vs. 31%). The survey revealed the primary factor for pursuing alternative service delivery approaches was internal efforts to cut costs (mentioned by 90% of respondents). External fiscal pressures were the second most noted reason (50%). Yet, a number of jurisdictions pursued shared services as a means to increase service *quality*, a prudent tact given that cost savings often can not be realized early on in a collaborative effort.

If one were to elaborate on the *intangible benefits* of interlocal cooperation, the list would include:

- Improving a unit's ability to respond to specific demands of citizens for specialized services.
- Improving the equity of services.
- Expanding the sense of community, reducing the problem of inter-jurisdictional competition, and fostering future joint ventures.
- Training and promotional opportunities for staff *beyond* the organizational borders of their "home" unit of government. The hiring and retaining of professional, well-educated, and highly qualified staff then becomes easier.
- Reducing the impact of attrition and retirements
- Leveraging the experience and talents of personnel across a broader area.
- Efficiencies gained through ILC/JPS often eliminate the need to fill vacated positions.
- Avoiding the risks of *not* collaborating, e.g., layoffs, insolvency/takeover, increased taxes.
- Providing, in some cases, a service that would not otherwise be available, often at a relatively low incremental cost.

Disincentives

While the reasons for collaborating have been expounded upon, it is only fair to acknowledge that there are often *disincentives* to consider as well. Keep the old adage in mind that if the cost of doing something exceeds its benefits, don't bother doing it! In the context of ILC/JPS, "costs" are not only economic, but political, legal, cultural, and social as well. Even when a strong *financial* business case can be made, it may be foolhardy to pursue an ILC/JPS initiative, e.g., the backing of elected officials may not be uniform; the sense of community may be too diminished in the eyes of the citizenry; ceding control of a critical service may increase risks of quality problems to an unacceptable level; less direct elected official oversight and/or reduced citizen participation may diminish traditional checks and balances beyond what would otherwise be prudent.

Evaluating Opportunities

When considering an ILC/JPS initiative, it is helpful to gather the following information:

- What are the goals and objectives for the proposed cooperative initiative and how may the affected communities / constituents benefit?
- What is the service area of impact (e.g., public safety, administration, recreational, educational, etc.)?
- What challenges (e.g., political, economic, human resource, legal, social, etc.) to the cooperative initiative exist?
- Will the communities establish financial and non-financial performance measures / benchmarks to measure success?
- Have the communities conducted a feasibility study? If so, what is the expected payback period/ROI?
- What *intangible* benefits may result from the cooperative initiative?
- Have the Councils / Boards of the communities adopted a resolution or in some way approved of proceeding?
- How many constituents may benefit from the cooperative initiative?
- Are there expected benefits (financial or otherwise) that will accrue to residents living *outside* of the communities who are pursuing the cooperative initiative?
- Have the communities been involved in *prior* cooperative initiatives? If so, were they successful and if not, why not?

Further, collecting the following information will facilitate conducting a feasibility study and selecting appropriate financing and cost allocation strategies:

- Demographics and community profile (e.g., economic base, population, housing, etc.).
- State Equalized Value and Taxable Value.
- Most recent Audited Financial Statements and/or CAFR.
- Revenues of programs/departments affected by the proposed cooperative initiative: Dedicated Millage and Rate; General Fund Contribution; Grants; Fees/ Fines; etc.
- An organization chart of programs/departments affected by the proposed cooperative initiative, including all positions (full-time, part-time, or volunteer) and their years of service, qualifications, certifications, etc.
- Expenditures of programs/departments affected by the proposed cooperative initiative: Total Full-Time Wages; Other Wages; Overtime; Benefits; Health Care; Retiree Health Care; Retirement Contribution; Supplies; Equipment; Utilities; Debt Service; etc.
- Existing pension liabilities of programs/departments affected by the proposed cooperative initiative and/or a copy of the latest actuarial valuation, including an actuarial valuation for retiree healthcare liabilities.

- A copy of the most recent labor contract(s) representing the staff of the programs/departments affected by the proposed cooperative initiative.
- Rotation (e.g., 12 hour vs. 24 hour), shifts, and minimum staffing levels by facility.
- Major capital outlay *projections* of programs/departments affected by the proposed cooperative initiative.
- *Existing* assets (e.g., facilities and equipment) of programs/ departments affected by the proposed cooperative initiative, including their purchase price and current estimated market value.
- Facilities owned and operated by the programs/departments affected by the proposed cooperative initiative, including address, size, cost of construction, book value, and debt outstanding.
- Work load data (e.g., work orders; number of events; number of runs or incidents) and target customer service level / response time objectives (and actuals) by facility and in total for each program/department affected by the proposed cooperative initiative.

Case Studies

Westland Police Department – CLEMIS

The Westland Police Department had been operating with information system applications from a third-party software vendor to meet its primary information needs. Generally, these applications provided adequate functionality, but lacked full integration. The Department decided to replace its in-house software with services and applications provided by the Courts and Law Enforcement Management Information System (CLEMIS) consortium supported by Oakland County. While the Police Department temporarily lost some of the functionality they enjoyed in their previous system, they gained functionality in other areas that more than offset any loss. Oakland County had shown a commitment to implementing new public safety technology. Among the major benefits of CLEMIS is having ready access to a multi-county, multi-jurisdictional database of police information – including mug shots – and 24-hour technical support.

To move ahead with CLEMIS, historical incident, contact, and active case data had to be converted. Also, various hardware and communication system upgrades were implemented. Bottom line, the *one-time* costs to the City for transitioning to CLEMIS approximated $100,000. *On-going* annual operating costs, including mobile computer lease fees, average $80,000. When compared with the annual projected operating costs of approximately $135,000 for the City's *previous* equivalent solution, a net savings of $55,000 (40%) a year is being realized.

Some of the lessons learned to date include:

- Participating local agencies should hold collaborative IT meetings.
- Participating local agencies should collaboratively plan for and jointly conduct training.

Plymouth – Plymouth Township

For a decade now, the City of Plymouth and Plymouth Township have jointly provided fire prevention / suppression and First Responder EMS services to their residents and visitors. This long-standing and mutually beneficial arrangement began simply enough – the City had a fully staffed, well-equipped fire station, but one that was older. The Township had a brand new fire station just west of the City, but no staff to operate with. So, with a little compromise and a lot of gain – including enhanced service coverage, leveraged use of a broader equipment inventory, increased number of officers responding to run calls – the two communities entered into an Inter-Governmental Agreement (IGA).

CLEMIS

The Court and Law Enforcement Management Information System represents 225, law enforcement agencies across six, Southeastern Michigan counties. Thirty years ago, CLEMIS began as an effort to establish a common records management system. Today, it represents the largest computer aided dispatch system in the nation. Features of CLEMIS include:

- CrimeView – a GIS decision information system
- OakNet – a 170, connection point fiber-optic network
- OakVideo – a video conferencing arraignment system connecting 60, sites and providing seamless workflow from the police vehicle to the prosecutor, judge and corrections officer.
- Fire Records Management System
- Regional LiveScan fingerprint and mug shot system
- County-wide radio system built on OakNet, providing voice and data interoperability to 62, communities.

Since then, the communities have grown – especially the Township – and the run call volume has increased, though the relative percentage of runs per community has remained constant. So, too, the services provided by the joint entity have expanded beyond what was anticipated in the IGA. This, in turn, led to a staff increase and expanded training needs that have added to the costs of operation. Further, the Township is considering bringing EMS services in-house (the communities currently contract with a third-party for this service).

Unfortunately, the financial health of the City and Township differs and the balance of power seems to be shifting. The City is struggling to keep up with cost demands and some within the City believe they are being taken for granted by their larger neighbor. The future direction of the joint entity seems uncertain. Options include looking for other partners to share costs with, re-negotiating the IGA / shared service arrangement, or, unfortunately, ending the relationship.

Some of the lessons learned to date include:

- Keep the communications between the parties open, positive, and frequent.
- Keep elected officials in-the-loop on all developments.
- Keep the IGA up-to-date with the realities of the operations.
- *Think regionally and act cooperatively.*

IV. Barriers to ILC/JPS and Strategies to Overcome Them

Forewarned is forearmed. Understanding the major barriers to ILC/JPS gives leaders the time to develop effective strategies to overcome them. Let's look at a few examples…

Barriers to Collaboration

- Fear of losing control
- Resistance to change
- Loss of identity
- Residents concern that they may "lose" a community asset/"institution"
- Concern for the quality or quantity of service
- Lack of knowledge
- Lack of leadership
- Uncertainty regarding how to begin pursuing collaboration
- Startup costs
- Labor contracts: manpower guarantees, rank differentials, pay rates and pensions
- Past disputes
- Distrust
- Lack of shared vision
- Lack of incentives
- Differing taxing authority and limitations amongst partner communities
- Difficulty determining the cost of the service and a method to allocate the cost
- Difficulty financing the collaboration
- Gain is too far out in time; may not occur during the current political term of office

Opposition from employees and other stakeholders

Internally, community leaders should be familiar with the statutes addressing interlocal ventures, understand the principles and processes involved in ILC/JPS, and develop a realistic implementation plan. Externally, community leaders need to build consensus for the initiative by involving *all* stakeholders *early on* and keeping them engaged as the initiative evolves. In short, stakeholders need to participate in decision making and share in successes.

An ILC/JPS initiative may be perceived as detrimental by certain stakeholders, if they feel disenfranchised in any way. Citizen or employee special interest groups can foment considerable opposition, particularly if they are well-organized or politically well-connected. Getting such groups to "buy in" early – and *stay in* for the duration – is crucial. This will require involving them as soon as possible and letting them participate and even influence the initiative's evolution. Consider involving stakeholders on ad hoc study committees to get their feedback and take advantage of their expertise and insights. Also, leverage businesses or others that *support* the ILC/JPS initiative to foster its acceptance in the community, e.g., promote the initiative's virtues.

Loss of constituent control

Residents may fear that an ILC/JPS initiative will lead to a loss of local identity and/or autonomy, e.g., their complaints or ideas will be lost in a larger bureaucracy that doesn't have to worry about keeping local constituents happy. Such opposition can be reduced by a truthful, well-designed public education campaign – editorials, regular press conferences, periodic press releases, etc. – that articulates the benefits of the ILC/JPS initiative, and mitigates concerns.

The "parent" units don't want to give up control to a new entity

An autonomous authority can have an interlocal administrative board configured to share control with the *parent* jurisdictions' governing bodies. Such boards can be structured to provide equal representation from all participating entities, or base membership on the level of financial support provided by each parent unit. To protect the interests of the minority, a super majority may be required for some or all decisions, e.g., budget adoption, approval of policies and procedures, setting user fees, major capital outlays, etc. It will be necessary to reach consensus on board composition, the appointment process, terms and responsibilities of appointees, the decision making process, sub-committee structure, part/full-time staff duties, third-party professional service provision, etc.

While day-to-day operational decisions may be surrendered to the authority, the parent jurisdictions' *governing bodies* will subsequently influence a much *larger*, more *powerful* service delivery system. Further, the parent entities' visibility may be enhanced by having their names displayed in the authority's logos or shown on its vehicles, building signs, and letterhead. The new entity should consider contracting with a parent unit(s) for certain services – e.g., financial administration, payroll, grounds keeping, etc. – to reduce redundant staffing/services, allowing the parent unit to "keep their hand in the game." Further, having the leaders of the parent units meet regularly – luncheons, rotating roundtable meetings, etc. – can foster trust and ease loss-of-control concerns. Lastly, the administrative board should report to the governing bodies of the parent units periodically regarding operational and financial matters to garner their approval and foster their continued involvement and buy-in.

Creating an Authority

An authority is a special purpose local government for the joint production and provision of a public service. The advantages of an authority may include some or all of the following:

- Separate legal status (requires development of by-laws and operating procedures)
- Legal authority to secure taxation revenues
- Legal authority to enter into long-term debt to finance capital projects

Demographic differences among constituents in the participating communities

Cultural, political, ethnic, and income differences can translate into differing service preferences, perceptions of favoritism, or spur special interest groups to act in ways that skew service delivery or quality. Open meetings that provide opportunities for comments by residents, a well-written contract that includes provisions to protect each community's interests, and easing into interlocal ventures by starting small and demonstrating successes, can demonstrate the fairness and effectiveness of the new service delivery structure.

The "donor status" syndrome

One parent unit may be the primary funding source for the ILC/JPS entity. This should be addressed early on and the benefits that accrue to both the region and especially the "donor" community well articulated. Be prepared to give the "donor" the lion's share of positive publicity (public kudos), especially early on, to solidify their commitment.

"What's in it for me?"

Prepare an ROI and formally make the Business Case in support of the ILC/JPS initiative. Also, use a financing and cost allocation model that everyone can live with (see below). Keep in mind, though, that not everyone will benefit equally. Akin to the "donor status" syndrome above, the unit who benefits the *least* may need public kudos the most.

Inconsistency in standards

Disparities between union contract terms, employee compensation, brand/product preferences, customer service levels, quality expectations, etc., have to be worked out *up front.* A tremendous amount of time and compromise should go into this task, but it will be well worth it in terms of avoiding problems that would otherwise arise *after* the initiative is up and operating.

Increased legal liability

Authorities are separate legal entities and thus, generally, liabilities rest with them and them alone. When an authority governing structure is *not* used, however, legal liability is spread among the parent units for the provision of services over a geographic area and population larger than any one of the units alone. This, in a way, increases the liability of each individual unit over what it might normally have been. However, instituting proper internal controls, employing a competent legal staff, rigidly maintaining customer service and quality standards, and securing the protection of an insurance/risk pool should be adequate to address this reality.

Decreased accountability

When service delivery resides outside of the parent unit's day-to-day control, accountability may suffer. Mandatory periodic reporting to the governing bodies of the parent units by the ILC/JPS entity, independent financial and operational audits, board appointment responsibility that rests with the parent units, citizen advocacy committees, etc., can serve to mitigate such concerns.

Service Level disparities

The importance of agreeing up front on the service level and quality standards to be provided by the new entity can not be understated. Consider using service level agreements (SLA) to manage expectations of all parties.

Often there are well-respected national or regional agencies or associations that provide standards for service levels (e.g., fire run response times). Relying on such a source should expedite agreement from all participants on acceptable standards.

Monopolistic influence

Avoid situations where any one entity, vendor, or customer can wield unilateral or otherwise excessive control. Contractual (e.g., interlocal agreement) terms and conditions need to address this issue. For example, an ILA could require agreement by a super majority before any changes in services or fees charged would be allowed.

Incompatible technology and/or infrastructure

The incompatibility of capital assets, such as information and communication technologies, can be a major barrier to collaboration. Several steps can be taken to mitigate this issue:

- Try and select one of the parent unit's technology platforms to "standardize" on up front.
- If a new, common system must be selected, establish a committee to jointly develop an RFP, evaluate bids, negotiate contracts, and oversee the implementation of a standardized platform/asset/technology.
- Longer-term, asset replacements should be coordinated between the participating entities (e.g., timing, specifications, etc.). Consider creating sinking funds and/or applying for capital grants to pay for the new assets.

V. Financing and Cost Allocation

Many entities face the classic "make or buy" decision, particularly when offering a service for the first time or when financial difficulties force a re-evaluation of why a community is providing certain services in the first place. A GFOA publication on this topic is available at http://www.gfoa.org/services/dfl/budget/documents/MakevsBuy.pdf. However, once a decision is made to "buy," interlocal cooperation and privatization are key choices. Local units of government that choose to pursue interlocal cooperation then must decide how to generate the necessary level of revenue (financing) and how to allocate costs among the participants. Financing strategies are legally restricted by the organizational structure chosen to provide the joint public service (e.g., a mutual aid agreement for fire suppression vs. a Fire Authority), while cost allocation options only come into play when the entity responsible for service delivery does not have independent taxing authority (e.g., a mutual aid agreement for fire suppression).

Financing

The financing method selected has far-reaching distributional consequences concerning who benefits and who pays. Financing can come from general-fund revenues, extra-voted property taxes, special assessments, user fees, third-party payments, grants, or donations/contributions. Certain Michigan laws grant bonding authority and the ability to levy a property tax for particular joint ventures. Other laws allow for cooperation, but do not grant taxing authority. The MSU Department of Agricultural Economics, College of Agriculture, has an excellent handbook on financing and cost allocation (available at www.msu.edu) that lists the various state laws (Acts) on the books, what revenue sources are granted by them, and which types of local government are eligible. These Acts cover emergency services, police and fire protection, assessment and collection of taxes, regional facilities for delinquent and neglected minors, public transportation, airports, water supply and water / sewage disposal, parks and recreation, municipal buildings and convention facilities, ports, planning, economic development, and libraries.

Cost Allocation

Early on, it must be decided whether the ILC/JPS entity will operate independently of the parent units, financially speaking. If so, and if state law grants the independent entity its own bonding and taxing authority, then cost sharing is moot (i.e., all costs and revenues are the entity's, *not* the parent units'). If not, then the ILC/JPS entity must identify its revenue sources (e.g., from customers, from parent units, from a combination of the two) and determine *who* is responsible for *which* costs and for *how much*. Whatever the method, failing to clearly state how costs are established and distributed can lead to conflicts that can jeopardize the very existence of the ILC/JPS.

Equating costs with benefits is the key to effective cost allocation – and identifying and quantifying benefits can be quite challenging. Some services have a direct benefit (an EMS run) and a per-unit cost[2] that can be charged back to either consumers or the parent units or a prorated share to both. Others, though, are so indirect (e.g., economic development) that broader forms of general taxation tend to be used to fund the service.

Once the costs and benefits are clearly delineated and agreed to, the collaborating entities must determine an appropriate strategy for cost allocation. Some strive to match costs to usage (e.g., service instances) by unit, while others use more indirect means (e.g., property tax values).

Match Costs to Usage

- *Average Cost Pricing*. For example, total annual operating (including capital replacement allocation) costs for fire services can be divided by the number of fire runs. Under this approach, revenues would likely fluctuate yearly based on actual run volumes.
- *Annual Fees*, i.e., a fixed amount annually for unlimited service use. With this approach, the provider either makes money or loses money, based on *actual* costs incurred for the volume of services provided.
- *Annual Fee + Average Cost Pricing*, i.e., a flat fee is charged annually, but per-unit fees are charged based on usage.
- *Percentage Share Based on Usage*, i.e., similar to Annual Fees, but based on historical usage averages per customer/parent unit.

Indirect Means

The indirect method of cost allocation typically involves a weighted formula, using relative size factors (e.g., population or SEV) in tandem with historical usage averages. First, weighting factors must be negotiated and agreed to by the collaborating units. Second, a percentage share of the service coverage area (i.e., population, SEV, usage) is calculated and assigned. Finally, the weighting factors are multiplied by the percentage shares (e.g., 20% of the population X a 30% weighting factor) and the result is applied to total costs (fixed and variable) to determine the cost allocation. Percentage shares can be adjusted annually as updated information becomes available. As one collaborating unit grows in size (i.e., population or SEV), they will likely assume more of the costs. However, since the formula includes historical usage, they should be assured that they are receiving increased *value* in exchange for their increased costs.

VI. So, In The End…

Clearly, there are pros and cons to interlocal cooperation / joint public services and it is not for the faint hearted. Yet, there is a sound business case that can be

[2] - When calculating a per-unit cost for a service, both fixed and variable costs must be included to ensure not only near-term operational viability, but also long-term maintenance of assets and service quality.

made for its serious consideration by nearly all local units of government. The benefits are both tangible and intangible, satisfying virtually all stakeholder needs. So, in the end, ILC/JPS should be pursued across a variety of service areas.

Interlocal Cooperation is…

Sym·bi·o·sis. Biology. A close, prolonged association between organisms that benefit each. A relationship of mutual benefit or dependence.

Sym·me·try. Exact correspondence of form and configuration on opposite sides of a dividing line. Beauty as a result of balance or harmonious arrangement.

Syn·er·gy. The interaction of two or more forces so that their combined effect is greater than the sum of their individual effects. Cooperative interaction that creates an enhanced combined effect.

Look for these additional white papers from the MGFOA:

- *Selling Stakeholders on ILC*
- *ILC Interlocal Agreements and Authorities*
- *Keeping an ILC Initiative Going: Keeping the Stakeholders Happy*
- *A Return on Investment template for ILC*

The white papers can be downloaded from the MGFOA web site at www.MiGFOA.org.